

VZCZCXRO8365
PP RUEHDBU
DE RUEHDBU #2019/01 3070707
ZNY CCCCC ZZH
P R 030707Z NOV 06
FM AMEMBASSY DUSHANBE
TO RUEHC/SECSTATE WASHDC PRIORITY 8987
INFO RUCNCIS/CIS COLLECTIVE
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHINGTON DC
RHEHAAA/NSC WASHINGTON DC
RUEHAK/AMEMBASSY ANKARA 1864
RUEHBJ/AMEMBASSY BEIJING 1851
RUEHRL/AMEMBASSY BERLIN 1788
RUEHIL/AMEMBASSY ISLAMABAD 1881
RUEHBUL/AMEMBASSY KABUL 1845
RUEHNE/AMEMBASSY NEW DELHI 1888
RUEHLO/AMEMBASSY LONDON 1742
RUEHBS/USEU BRUSSELS 1116
RUCNDT/USMISSION USUN NEW YORK 1359
RUEHKO/AMEMBASSY TOKYO 1561
RHMFSS/HQ USCENCOM MACDILL AFB FL
RHMFSS/HQ USEUCOM VAIHINGEN GE
RUEHNO/USMISSION USNATO 1757
RUEKJCS/JCS NMCC WASHINGTON DC
RUEHVEN/USMISSION USOSCE 1832
RUEHML/AMEMBASSY MANILA 0106
RUEHDBU/AMEMBASSY DUSHANBE 0467

C O N F I D E N T I A L SECTION 01 OF 04 DUSHANBE 002019

SIPDIS

SIPDIS

SCA FOR DEUTSCH; NSC FOR MERKEL; E FOR HENGEL AND DUNCAN; EMBASSY MANILA PLEASE PASS TO ADB AMBASSADOR SPELTZ

E.O. 12958: DECL: 11/3/2016

TAGS: [ECIN](#) [PGOV](#) [PREL](#) [ECON](#) [ENRG](#) [EFIN](#) [TI](#) [AF](#) [KG](#) [PK](#)

SUBJECT: DUSHANBE ELECTRICITY CONFERENCE PRODUCES MEMORANDUM OF UNDERSTANDING

CLASSIFIED BY: Tom Hushek, Deputy Chief of Mission, U.S. Embassy Dushanbe, STATE.

REASON: 1.4 (b), (d)

1. (SBU) INTRODUCTION: Afghanistan, Kyrgyzstan, Pakistan, and Tajikistan moved three steps closer to establishing a regional transmission system and electricity market at the Second Central and South Asia regional electricity market conference. During the October 26-28 conference in Dushanbe, the four countries: 1) signed a Memorandum of Understanding on the development of a Central Asia- South Asia Regional Electricity Market (CASAREM), 2) established an Inter-Ministerial Council and continued the Multi-Country Working Group as part of the decision-making framework, and 3) agreed to a roadmap that spelled out the next steps, including two feasibility studies, a working group meeting and a June ministerial in Kabul. The steps represent real progress, but only the studies will show whether the good will translates into a commercially viable electricity transmission network. The political and security issues that went unmentioned during the conference will have to be addressed to attract investors. END INTRODUCTION.

2. (SBU) The signing of the memorandum of understanding allows the Asian Development Bank (ADB) and World Bank to launch tenders for two studies to determine the viability of bringing 1,000 megawatts of electricity from Tajikistan and Kyrgyzstan through Afghanistan to Pakistan and to recommend structures for organizing the system, financing and mitigating risks. The ADB will fund a techno-economic assessment examining the availability and cost of power year round, Pakistan's power requirements, and transmission options, routes, and costs. The World Bank will support a commercial study that looks at the institutional, financial, risk mitigation and legal frameworks necessary for the electricity transmission network. The studies will also present the results of engagement with the private sector on their interest in the project. The consultants will have 100 days to complete the first phase of each study, estimated to conclude in late spring. At the Kabul meeting, the four ministers will decide whether to go forward with the project, based on the two studies, and start in-depth negotiations on the structure, financing, and private sector participation. If the project is a "go," the fourth meeting would be held in Bishkek in 2007, with an eye towards transmitting electricity by 2010.

PRESENTATIONS AND POSTURING

3. (C) The major international financial institutions all attended, as did a smattering of private companies trying to stake their claim in the project. Russian electricity giant RAO UES and the U.S. energy company AES gave presentations on their

SIPDIS

activities in the region. RAO focused on construction of Sangtuda I and AES presented its view of a transmission project, including thermal-generated power from Kazakhstan. Coffee break conversations included the issue of the possibility of an international financial institution stake in RAO's Sangtuda-I hydropower station. The European Bank for Reconstruction and Development and World Bank are discussing a 25% equity share in Sangtuda, subject to proving an export market for the power. Pamir Energy presented an overview of its Pamir I project in southern Tajikistan, but glossed over most of the cost recovery and political issues they privately admitted to us over lunch.

14. (C) The Chinese firm TBEA gave a video presentation detailing its general experience in the power sector, but its representatives told PolOff they did not yet have a firm project in Tajikistan. (NOTE: Deputy Ministry of Energy Mavjuda

DUSHANBE 00002019 002 OF 004

Keldiyerova confirmed that the Chinese had signed an agreement to build Yavan power station, a 120 MW project on the Zarafshan river in northern Tajikistan, but nothing had been made public. END NOTE.)

15. (C) Despite the four countries initially agreeing to language in the MOU that clearly acknowledged the U.S. Trade and Development Agency's support of regional energy markets and its June meeting in Istanbul, Tajik Deputy Prime Minister Ghulomov launched a debate, echoed by Afghan Minister for Power and Water Ismael Khan, on the relative (and bilateral) contributions of China, Russia, and Iran, and whether they should be mentioned in the memorandum as well. In the end, the parties agreed to a vague reference to outside assistance and anticipation of future support for the project. Minister Yerov later joked to PolOff, "We had all decided to recognize the U.S. conference, and Ghulomov went and spoiled it!"

16. (SBU) Debate over the route of the transmission lines, and Pakistani concern about the security of a line through Kabul, instead of the Wakhan corridor, also led the parties to include more general language that promised to explore other routes. The Pakistani delegation also expressed concern about the economic study of options for supplying electricity, complaining that if competitors knew how much Pakistan was willing to pay, they would not have a competitive advantage. They eventually agreed this was an important part of the economic viability question.

AROUND THE TABLE

17. (SBU) In addition to the four principle signatories, other diplomatic missions sent representatives to the President's opening remarks: China, India, Iran, France, UK, Kazakhstan, Turkey, and Uzbekistan (many of whom arrived late when Rahmonov started his remarks 15 minutes early.) The nine-member U.S. delegation, led by Senior Advisor Robert Deutsch, was the largest, and comprised USAID, State and Treasury officials.

18. (C) Conspicuously absent were the Russian Embassy and RusAl. During President Rahmonov's opening remarks, the only empty seats at the 100-person table were behind the Russian flag. (COMMENT: Given the Russian DCM's presence at all diplomatic and government functions, this seemed deliberate. END COMMENT.) Rahmonov announced in his speech and to the press that the Tajik government would develop Rogun hydropower station, "on its own," signaling his impatience with RusAl and adding more fuel to the debate surrounding the 3,600 megawatt project. Energy Minister Yerov later clarified to PolOff that Tajikistan intended to develop Rogun with a "consortium" and that RusAl may have ten percent of the project, or more. (NOTE: Subsequent press reports from RusAl in response to Rahmonov's remarks have stated the Russian-Tajik joint economic commission would make the final decision on the development of Rogun. END NOTE.) In his comments, Rahmonov also blasted those who contend that generation building takes a back seat to water rights (clearly Uzbekistan).

PLOV AND MORE PLOV

17. (C) Tajik hospitality overwhelmed the participants, with multi-course meat feasts at lunch and dinner, always culminating in a generous serving of the national dish, plov. At the dinner-concert Friday night, Tajik officials commended Ambassador Jacobson for the U.S. delegates' enthusiasm on the dance floor and at the conference, underscoring the noted absence of any Russian diplomat. "We appreciate your support."

DHASTI-JHUM, ANYONE? (MEANING THE UNITED STATES)

DUSHANBE 00002019 003 OF 004

18. (C) No meeting between U.S. and Tajik energy officials would be complete without the Tajiks raising the question of the 3,600

megawatt hydropower station Dhasti-Jhum. Although the conference was focused specifically on developing a 1,000 MW electricity trade project between Central and South Asia, the Tajiks raised the issue of power generation repeatedly, at one point trying to work it into the terms of reference for both feasibility studies. Several officials hopefully mentioned Dhasti-jhum to Deutsch, in an effort to gauge U.S. interest and commitment. Deutsch politely noted that Tajikistan needed to take many steps in order to create an environment where private investors would consider such a mammoth project. Nonetheless, AES reps indicated privately that they are engaged in discussions on developing the Shurob site (400-500 MW) which may have been reflected in Minister Yerov's comment that we should encourage AES to meet its MOU commitment to build 1,000 MW.

TAJIK- AFGHAN BILATERAL ELECTRICITY TRADE

19. (C) On the margins of the conference, the Asian Development Bank and the Afghan delegation were attempting to obtain Tajikistan's signature on an MOU underlying bilateral electricity trade. The MOU would allow the Bank to commit funding to build the 220 KV interconnection from Tajikistan to the Afghan North-East Power Systems (NEPS). Although President Rahmonov, as he was leaving the delegation photo shoot, told his officials to "get the MOU signed," Barqi Tojik (the Tajik transmission company) was apparently dragging its heels to obtain more equipment in the financial package. In the end, Afghan Minister Khan left the signed MOU in Dushanbe awaiting Tajik signature. Post will continue to monitor completion of this MOU.

WHAT NEXT?

10. (C) Under the road map developed by the World Bank, the ministers will meet in Kabul in June, or possibly July, depending on when the consultants finished their studies. The Islamic Development Bank tentatively offered to host the next working group meeting probably in February, when initial work is begun. In Kabul, the parties will have to decide whether to go forward or not, based on the recommendations and findings in the studies.

11. (C) COMMENT: The conference represented progress in bringing all four countries together to sign an agreement, but also underscored that the Tajiks in particular still do not understand the specific scope of this regional project. The push for developing generation projects before building transmission networks and identifying customers demonstrates a neo-Soviet mindset on big investment projects. The Chinese plans to develop a hydropower station and, seeming willingness to spread cheap loans to support infrastructure development, further distract from the efforts of the IFIs and United States to emphasize the importance of proper legal and financial frameworks.

12. (C) Although there will be an official "go or no go" decision, most parties seemed to feel this project is inevitable. It will be important for all parties to digest the consultants work on the real costs, organizational requirements, security mitigation needs, and real export commitments required for this project to work. The parties agreed that each country will need a team of advisors to help them assess the feasibility work by the consultants. They will all be looking to the donor communities to finance and help engage such advisors. This may be an area where the U.S. should consider assisting as part of our continued support for regional integration. END COMMENT.

DUSHANBE 00002019 004 OF 004

13. (U) This cable has been cleared by Senior Advisor Bob Deutsch.
JACOBSON